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More movement on the energy market: and now it is BP and Russian oil!

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Just when we thought that Russian/European energy adventures could be left to simmer away in Brussels... here comes the announcement that BP has disposed of its 50% interest in TNK/BP in exchange for Rosneft shares.

<http://www.bbc.co.uk/news/business-20030610>

Given the importance of the oil reserves existing in Russia and, consequently, of the rather convincing justification for BP (just as, it could be envisaged, for any other energy company) to keep a strong foothold in the region, one could be forgiven for thinking that BP's move may actually be a "good idea". It would pretty much guarantee a continuous source of oil supply for a company who's been through mixed fortunes lately: starting from the oil spill in the gulf of Mexico to its fitful, to say the least, relationship with its own partners in TNK, BP's recent history can easily be defined as chequered to say the least.

However, the picture is not as clear or straightforward as it looks like. Rosneft is a company controlled by the Russian State and Mr Putin has made no mystery of his wish to remain closely involved in its management, to the point of being briefed ahead of the TNK/BP deal. BP's life as a partner in the joint venture has not been the happiest or quietest either: in 2008, its chairman (now at BP) Bob Dudley, had to leave the country following a number of run-ins with Russian authorities as well as with its own partners in TNK. To cap it all, the joint efforts made by TNK/BP and Rosneft itself to start drilling in the Arctic region faced intense opposition by other Russian oil producers, and were eventually abandoned.

So, what can be gained from a similar merger? And what does this mean for competition in the energy industries and especially for rivalry on the oil market? There is little doubt that energy supply in Continental Europe, despite growing capacity in the gas segment, remains significantly dependent on oil. Oil is especially important in other economic sectors, such as transport: consequently, it could be argued that BP's move toward greater corporate and ownership-based integration with Rosneft represents a rational response to an ever changing and deeply challenging industry. As was reported by the Financial Times on 22 October, this concentration is likely to harbor significant benefits for BP shareholders, in terms of exposure to one of the world largest oil companies", productive synergies and the ability to tap in extremely extensive and thus valuable oil reserves (see: <http://www.ft.com/cms/s/0/9776a77a-1c39-11e2-a14a-00144feabdc0.html#axzz2AOdVeWmx>). However, it is legitimately questionable whether similar enthusiasm can be expressed when one looks at the potential consequences for the accessibility of the oil market in vast areas of continental Europe.

It appears in fact from the details available as to the deal that the merged entity will maintain a hold on the supplies directed to numerous Member States, starting from the three Baltic Republic; in addition, it will own or enjoy exclusive rights to use key infrastructure (such as that allowing for the exploitation of rich Arctic oil fields). The merger is also very likely to boost the battered reputation of BP, especially after its poor dealing with the consequences of the Gulf of Mexico oil spill. However, it is equally clear that any rival wishing to threaten the leading position of Rosneft after the concentration will have, at the very least, significant difficulties in accessing much of the Continental market. On 22 October 2012 Businessweek reported (see: <http://www.businessweek.com/articles/2012-10-22/bps-good-deal-with-rosneft>) that as a result of its takeover of BP/TNK, Rosneft will pull neck-and-neck with Exxon Mobil, which to date has been the most significant

competitor when it came to access of the Russian reserves, on the one hand, and of European customers, on the other hand. As a result, not just Exxon, but also other key rivals will be more and more sidelined when it comes to attempting an entry into the rich Russian oilfields: for instance, deals such as the Arctic/Black Sea drilling jointventure that Exxon itself negotiated with Rosneft in late 2011 are to become less and less likely, due to the fact that, given the synergies created with the BP-co-owned company, Rosneft will see lesser and lesser convenience in seeking out other partners. As was aptly put by Pavel Molchanov, a US based analyst, as a result of this deal, BP has been "officially endorsed" as the preferred partner" for Rosneft, which means, in practice, that it will retain a very privileged position, vis-a-vis other potential entrants, in securing both access to Russian oil and rights to exploit the oilfields with a view to exporting oil to countries in Europe. See: <http://www.businessweek.com/news/2012-10-22/russia-off-limits-to-big-oil-after-bp-wins-putin-s-approval>

As a result of this merger, the oil market in Continental Europe, whose dynamics affect oil availability and oil prices across the EU, appears more and more concentrated. Due to the dependency on Russian-held resources, the consequences of the merger are likely to be felt in many Member States, with non-Russian companies in a position of increasing disadvantage vis-a-vis BP when it comes to securing supplies and to channeling them to other areas of the Continent. The merger also raises significant questions concerning governance: it is in fact well known that Rosneft, in its position of state-run oil company, is very exposed to the political influence of the Russian Government and Presidency. Consequently, a number of concerns were raised that BP's own internal governance may also be exposed to similar influences or threats thereof. more generally, it may legitimately be questioned whether the merger could remain consistent with another objective, which has been at the core of among others the EU's policy agenda on energy, namely the attainment of "real" privatisation and of greater, easier access to the energy markets (see e.g. http://ec.europa.eu/energy/infrastructure/strategy/2020_en.htm).

In the aftermath of this merger, several analysts have suggested that the Kremlin seems to be poised toward the "re-nationalisation" of the extraction industry. Ostensibly out of a concern for keeping oil and gas "Russian" and "Moscow-centric", this deal seems to confirm the intention of the Russian State to tighten its hold on strategic oilfields while at the same time continuing to trade with foreign customers via a "trusted" ally, such as BP. Gone are the days, it would seem, of the Russian "oligarchs" who, in the wake of the fall of the USSR were poised to become the free-market heroes of modern, post-Communist Russia (see e.g. <http://news.bbc.co.uk/1/hi/business/3218515.stm>). Leaving aside the "historical" background, it may be genuinely questioned whether the merger between BP/TNK and Rosneft is going to herald an era of less expensive, more easily available oil to be sold in vigorously competitive markets. Certainly, BP stands to benefit from his "special position" in the eyes of the Kremlin... but whether this will lead to a more contestable market in Europe in the long run, at least as far as onshore drilling and extraction go, it is highly doubted.

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